

ELECTRONIC TRANSACTIONS CLEARINGHOUSE

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2005 AND 2004

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ELECTRONIC TRANSACTIONS CLEARINGHOUSE
OFFICIALS
AS OF JUNE 30, 2005

Name

Title

Angela Connolly	President
Denise Dolan	1 st Vice President
Kim Painter	2 nd Vice President
Mike King	3 rd Vice President
Dale Hyman	Member
Mary Williams	Member
Steve Lekwa	Member
Robert Haylock	Member
Mark Linda	Member
Deanna Neldeberg-Bachman	Member
Wayne Chizek	Member
Grant Veeder	Member
Jane Halliburton	Member
Kathy Nicholls	Member
Gary Anderson	Member
Lannie Miller	Member
Lee Duin	Member
Tim Huey	Member
J. Patrick White	Member
William Peterson	Executive Director



David W. Hurst, CPA
Kathleen A. Koenig, CPA
Robert R. McGowen, CPA
Michael W. McNichols, CPA
Thomas J. Pflanz, CPA
John A. Schmidt, CPA
Daniel A. Schwarz, CPA
S. James Smith, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Electronic Transactions Clearinghouse

We have audited the accompanying statements of financial position of Electronic Transactions Clearinghouse as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electronic Transactions Clearinghouse as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 19, 2005, on our consideration of Electronic Transactions Clearinghouse's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 6 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

McGowen, Hurst, Clark & Smith, P.C.

West Des Moines, Iowa
August 19, 2005

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and the American Institute of Certified Public Accountants

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ELECTRONIC TRANSACTIONS CLEARINGHOUSE **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Electronic Transactions Clearinghouse (ETC) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with ETC's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Organization did not assess its members dues during the fiscal year ended June 30, 2005. In addition, no new counties became members during fiscal 2005.
- The Organization's operating expenses were 73%, or \$177,135, less in fiscal 2005 than in fiscal 2004. Fiscal year 2004 expenses were significantly higher as they included the initial project and development fees.

USING THIS ANNUAL REPORT

The Electronic Transactions Clearinghouse is a single enterprise fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to ETC's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of ETC's financial activities.

The Statements of Financial Position present information on ETC's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of ETC is improving or deteriorating.

The Statements of Activities present information on the ETC's operating revenues and expenses, non-operating revenues and expenses and whether the ETC's financial position has improved or deteriorated as a result of the year's activities.

The Statements of Cash Flows present the change in the ETC's cash and cash equivalents during the year. This information can assist the user of the report in determining how the ETC financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE

Statements of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of ETC's financial position. ETC's net assets for fiscal 2005 totaled approximately \$32,200. A summary of ETC's net assets is presented below:

	June 30,	
	2005	2004
Cash	\$ 33,827	\$ 82,280
Computer software at cost, less accumulated depreciation	15,384	28,522
Total assets	49,211	110,802
Current liabilities – accounts payable	17,050	13,486
Total net assets – unrestricted	\$ 32,161	\$ 97,316

All of ETC's net assets are unrestricted net assets that can be used to meet ETC's obligations as they come due.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE,
continued

Statements of Activities

Operating revenues are received for entry and membership fees from the member counties. Operating expenses are expenses paid to develop and operate ETC's web-site. Non-operating revenue is comprised of interest income. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the years ended June 30, 2005 and 2004 is presented below:

		June 30,	
		2005	2004
Revenue			
Membership dues	\$	-	\$ 176,715
Entry fees		-	162,645
Interest		554	800
Total revenue		<u>554</u>	<u>340,160</u>
Expenses			
Project management		-	130,846
Development fee		-	48,791
Set-up and hosting fee		44,687	38,246
Administrative expenses		7,064	13,486
Depreciation		13,138	10,729
Miscellaneous		820	746
Total expenses		<u>65,709</u>	<u>242,844</u>
Net increase (decrease) in net assets		(65,155)	97,316
Net assets, beginning of year		<u>97,316</u>	-
Net assets, end of year	\$	<u>32,161</u>	\$ <u>97,316</u>

The Statements of Activities reflect a decrease in the net assets at the end of the 2005 fiscal year, as expected, due to not assessing membership dues during fiscal year 2005.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
MANAGEMENT'S DISCUSSION AND ANALYSIS

**FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE,
continued**

Statements of Cash Flows

The Statements of Cash Flows present information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash used by operating activities during fiscal year 2005 include interest earnings reduced by payments for hosting fees and administrative costs.

COMPUTER SOFTWARE

At June 30, 2005, ETC had approximately \$15,400 invested in computer software, net of accumulated amortization of \$23,900. Amortization charges totaled \$13,138 for fiscal 2005. More detailed information about the ETC's computer software is presented in Note A to the financial statements.

ECONOMIC FACTORS

Electronic Transactions Clearinghouse began operations on July 1, 2003. Some of the realities that may potentially become challenges for ETC to meet are:

- Technology continues to expand and current technology becomes outdated, presenting an on-going challenge to maintain up to date technology at a reasonable cost.
- ETC was created to meet a federal standard for receipt of electronic medical transactions. Changes in federal standards could present fiscal challenges caused by required system design changes.
- Providers of medical services to counties must make the necessary investment in technology to be able to submit claims electronically.

ETC's 2006 fiscal year revenues are contingent upon whether new counties become members during the upcoming year and whether ETC assesses its members dues during the year. Currently, ETC expects to assess dues to offset operating expenses during fiscal year 2006. ETC anticipates 2006 fiscal year expenses to be similar to 2005 fiscal year expenses.

CONTACTING THE CLEARINGHOUSE'S FINANCIAL MANAGEMENT

This financial report is designed to provide Board of Directors and management with a general overview of ETC's finances and to show the ETC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Electronic Transactions Clearinghouse, 501 SW 7th Street, Suite Q, Des Moines, Iowa.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004

ASSETS			
		2005	2004
Cash and cash equivalents		\$ 33,827	\$ 82,280
Computer software		39,251	39,251
Less accumulated amortization		(23,867)	(10,729)
		<u>15,384</u>	<u>28,522</u>
Total assets		<u><u>\$ 49,211</u></u>	<u><u>\$ 110,802</u></u>

LIABILITIES AND NET ASSETS			
Liabilities			
Due to Iowa State Association of Counties		\$ 17,050	\$ 13,486
Net assets - unrestricted		<u>32,161</u>	<u>97,316</u>
Total liabilities and net assets		<u><u>\$ 49,211</u></u>	<u><u>\$ 110,802</u></u>

The accompanying notes are an integral part of these financial statements.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2005 AND 2004

REVENUE	2005	2004
Membership fees	\$ -	\$ 176,715
Entry fees	-	162,645
Interest income	554	800
Total revenue	<u>554</u>	<u>340,160</u>
EXPENSES		
Project management	-	130,846
Development fee	-	48,791
Set-up and hosting fees	44,687	38,246
Administrative expenses	7,064	13,486
Software amortization	13,138	10,729
Miscellaneous	820	746
Total expenses	<u>65,709</u>	<u>242,844</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(65,155)	97,316
UNRESTRICTED NET ASSETS, beginning of year	<u>97,316</u>	<u>-</u>
UNRESTRICTED NET ASSETS, end of year	<u><u>\$ 32,161</u></u>	<u><u>\$ 97,316</u></u>

The accompanying notes are an integral part of these financial statements.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2005</u>	<u>2004</u>
Increase (decrease) in net assets	\$ (65,155)	\$ 97,316
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Software amortization	13,138	10,729
Increase in amounts due to		
Iowa State Association of Counties	<u>3,564</u>	<u>13,486</u>
Net cash provided (used) by operating activities	(48,453)	121,531
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of computer software	<u>-</u>	<u>(39,251)</u>
Net increase (decrease) in cash	(48,453)	82,280
CASH, beginning of year	<u>82,280</u>	<u>-</u>
CASH, end of year	<u><u>\$ 33,827</u></u>	<u><u>\$ 82,280</u></u>

The accompanying notes are an integral part of these financial statements.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - Electronic Transactions Clearinghouse (ETC) was formed in accordance with Iowa Code Chapter 28E to provide the use of an electronic data interchange for Health Insurance Portability and Accountability Act (HIPAA) related transactions with member counties in Iowa.

Cash and cash equivalents - For purposes of the statement of cash flows, ETC considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Computer software - ETC presents computer software at cost, less accumulated amortization. Software costs are amortized over a useful life of three years using the straight-line method. Expenditures for software maintenance are expensed as incurred.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes - ETC was formed as a joint venture between participating member counties and the Iowa State Association of Counties and is exempt from income taxes. Accordingly, no provision for income taxes has been provided in the financial statements.

NOTE B - DUE TO IOWA STATE ASSOCIATION OF COUNTIES

Certain administrative expenses are paid by the Iowa State Association of Counties (ISAC) on behalf of ETC and then reimbursed to ISAC. Amounts owed to ISAC are non-interest bearing. Administrative expenses paid by ISAC on behalf of ETC totaled \$3,654 and \$13,486 for fiscal years 2005 and 2004, respectively.

NOTE C - COMMITMENTS

ETC has a two-year hosting agreement through September 30, 2005. The agreement requires monthly payments of \$3,625 and may be terminated by either party after the expiration of the initial two-year commitment by providing thirty days written notice to the other party. After the initial commitment period, the agreement remains in effect on a month-to-month basis until terminated by either party.

NOTE D - FUNCTIONAL ALLOCATION OF EXPENSES

Functional expenses allocations were made by direct assignment of cost to functional categories. Following is a summary of the functional allocation of expenses at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Program expenses	\$ 57,825	\$ 228,612
Fundraising costs	-	-
General and administration	<u>7,884</u>	<u>14,232</u>
Total expenses	<u>\$ 65,709</u>	<u>\$ 242,844</u>



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Electronic Transactions Clearinghouse

We have audited the financial statements of the Electronic Transactions Clearinghouse as of and for the year ended June 30, 2005 and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Electronic Transactions Clearinghouse's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Electronic Transactions Clearinghouse's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and Electronic Transactions Clearinghouse's management and is not intended to be and should not be used by anyone other than these specified parties.

McGowen, Hurst, Clark & Smith, P.C.

West Des Moines, Iowa
August 19, 2005

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ELECTRONIC TRANSACTIONS CLEARINGHOUSE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Findings Related to the Financial Statements

Instances of non-compliance

No matters were noted.

Reportable conditions

No matters were noted.

Other findings related to required statutory reporting

No matters were noted.